



Ashley House plc

4 May 2010

Press release

Trading Update and Acquisition

Ashley House plc (“the Company”) the health and social care infrastructure specialist, announces its pre close trading statement for the year ended 30 April 2010 together with the acquisition of Strategic Property Solutions Ltd (“SPS”).

Trading update

As announced at the time of the interim results in January, trading conditions have remained difficult in the final months of the year, with uncertainty over the outcome of the General Election and future NHS budgets continuing to have an impact on its NHS partners and clients. All the Company’s schemes have suffered from delays but progress, while slow by historical standards, continues to be made.

In April 2010 the Company was on site with eight schemes with a total value of £20m compared to six in April 2009 with a value of £11m. Of the five delayed schemes we referred to in our 26 January announcement three are now on site with the remaining two programmed to achieve Financial Close in the next four weeks. In the last year we have had to only provide for £0.3m for two smaller schemes with a total value of £3m where the PCT remains unable to confirm an intention to fund in the foreseeable future. No other confirmed schemes have been cancelled.

We expect to report an underlying profitability at a trading level in excess of £4m for the year, although profit before tax will be below current analysts’ expectations. Final audited profit before tax is likely to be reduced by three factors:

- On 26th February 2010 the Company’s property partner, AH Medical Properties plc (“AHMP”) announced that it had received an unsolicited approach regarding a possible offer for the company. While no offer has yet been forthcoming, and the future ownership of AHMP remains uncertain, it remains neither strategically desirable nor practically possible for Ashley House to contract schemes with AHMP in the customary way. This means that four schemes’ assets that would, in the normal course of events, have been included on the AHMP balance sheet have been temporarily retained within Ashley House meaning profit recognition for design and build fees may happen subsequent to the April 2010 year end;

- The accounting treatment of income earned by the Company for work carried out on the SPS development pipeline ahead of the acquisition is now expected to be part of the fair value adjustment on acquisition and therefore not taken through the profit and loss account;
- The Company will expense exceptional one off costs arising from the re-structuring of the business referred to in the January statement. This cost cutting exercise resulted in a reduction in headcount and closure of four regional offices.

The impact of each of these items is expected to be c. £1m.

Given the strength of the underlying trading performance, the Board can confirm its intention to pay a final dividend for the year in line with analysts' expectations.

Acquisition of SPS

As part of Ashley House's strategy of diversification and developing new and recurring revenue streams, the Company is pleased to announce that it has entered into a contract to acquire the development pipeline of Strategic Property Solutions Limited ("SPS"). SPS is a developer of community mental health and associated infrastructure for which the Company has seen an increasing demand within its growing pipeline of major integrated developments. SPS's pipeline comprises eight assisted living schemes for mental health patients and the acquisition brings new technical expertise to the Company as it seeks to broaden its ability to secure opportunities in related mental health and social services care sectors. Two key employees of SPS transferred to Ashley House in January and are actively engaged in providing assistance on a number of the Company's existing schemes. They will continue to develop the pipeline of SPS projects which has a value of approximately £20m.

The consideration for the acquisition is to be satisfied by the issue of 2.3m new ordinary shares in the Company (valuing the SPS business at c. £1.5m at a 65p share price) subject to certain conditions including the issue of Planning Approval for a development of 28 assisted living units leased on a 20 year term to a Local Authority.

Assets

In light of both a changing and uncertain NHS market and the uncertainty around AHMP, the Board is reviewing whether Ashley House should harbour property on its own balance sheet. Such a capability would allow the Company to close schemes more quickly, remove uncertainty around funding, give the business stronger asset backing (together with regular income streams where schemes are held post completion) and provide new revenue streams as land deals can be facilitated for Trusts and LIFTCo's. The latter is particularly important in the expectation of revenues to be earned from estate management and change work that we believe PCTs and Councils will be interested in progressing post-election. The Board will update shareholders in due course.

Outlook

Whilst schemes are under close scrutiny our projects have still been able to make steady progress, particularly as many bring long term financial savings to PCTs, helping shift care to the primary and community sector away from more expensive alternatives. For the year 2010/11 the company is targeting recurrent fee income and build margins from schemes on site to cover all overheads. The Company is anticipating being on site with twelve schemes by April 2011 with a total value of £37m.

Our pipeline now stands at £244m (January 2010: £238m) excluding schemes from SPS. We have been able to agree with our partners in East London LIFT a change to our model of working. Under this agreement we are moving to a fee based client side position that includes long stop payment dates and which will reduce the impact of project delays. We intend to replicate this change in business model across our LIFT market.

Jonathan Holmes, Chief Executive, commented: "As we outlined in January, near term project timings have been impacted by very challenging trading conditions for both ourselves and our NHS partners. Nonetheless by working intensively with our clients, we have sought to mitigate the impact of the current financial and political uncertainty wherever possible. While there has inevitably been some impact on our performance in the past year, we continue to adapt our business in response to challenges and we are now looking to the current year with confidence."

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